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COSTA RICA

BUILDING AND REGULATING FINANCIAL MARKETS

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I. Background

Costa Rica is a small country of approximately 3.0 million inhabitants located in Central America, between the countries of Panama and Nicaragua. It is well known for its 100 year democratic tradition and its almost unique position in the world as one of the few nations without a standing army. The population is highly educated, with a literacy rate of about 95%.

Costa Rica has been classified as a middle-income, highly indebted country.[1] Its traditional exports (coffee, bananas, beef and sugar) accounted for 44% of total exports in 1990, but have been decreasing in relative importance as non-traditional exports have grown during the past decade (over 50% since 1987). Exports during 1990 totalled $1,452 million.[2] The country has a burdening combined deficit in the public sector (about 5.0% of GDP in 1990), which averaged 4.5% of GDP during the 84-90 period and was expected to reach 7% of GDP in 1991, unless major corrective measures were taken (see Annex I). The inflation rate is currently at 25% and interest rates in the formal financial market stand at 42%.[3]

During the 1940's Costa Rica was the subject of strong influence from European ideologies. Basically, three streams of thought came together in a historical juncture, all of them promoting ideas of social justice. They were the ideas of Pope John XXIII promoted by the Catholic church, and the political movements of social democracy and communism. These philosophies converged in Costa Rica and were clearly represented by the leaders of the time.

In the aftermath of the 1948 revolution, successive administrations launched and sustained a major nationalization program. Among the services nationalized was power generation and distribution, the railroads, the insurance system and the commercial banking system. The nationalization of the banking system was heralded as one of the biggest achievements of the time and, to this day, continues as an important component of national ideology. Any attempt to change the current system immediately runs ~~counter to deep-felt, if not always rational, opposition. The severe financial crisis of the~~ seventies and eighties, coupled with the emergence of a new generation of economists, has gradually begun to erode the statist mind set which has surrounded the issue of banking policy and structure for more than a generation.

The 1948 decree, which nationalized the commercial banks, created a monopsony in favor of state banks, converting three private banks into public institutions. To this day, only the state banks are permitted to capture sight deposits and only they have access to the Central Bank's rediscount facility. The state banks, by their very nature, cannot go broke. In essence this has resulted in the socialization of risk, since society at large has assumed the losses which the banks have realized. This situation has in fact occurred frequently in Costa Rica, and the banks have been repeatedly re-capitalized with public funds. As expected, the dominance of the state banking system, with its unlimited state backing, has effectively limited the entry into the formal financial market of other players, given that they must compete under unequal circumstances.

Nationalization of the banking system did have, however, some positive, albeit mostly short-lived, effects. New economic programs, which private banks may have considered too risky, were initiated at the time. The use of inexpensive funds (deposits) allowed the banks to extend to these programs subsidized credit, which increased their chances of success and resulted in the strengthening of chosen institutions. In addition, the access to credit was expanded resulting in a "democratization" of the financial services.4/ By 1952 the banks, through rural lending boards, had reached 25% of the farmers with 20,000 loans. After peaking at about 24,000 loans in 1976, rural based agricultural lending dropped off rapidly (refer to Annex II to see the decrease in percent of credit received by agricultural sector).5/

It did not take long, however, for the nationalized banking system to begin to show evidence of deterioration. The banks quickly became bureaucratized and politicized. Bank officers began to be named for political reasons and the concept of accountability eroded. Management was no longer accountable to stockholders, but rather was subservient to political interests, which in most cases coincided with those of the borrowers. Thus, the banks became borrower-dominated. The number of employees in the banks grew from 686 in 1950 to 8,340 in 1986 (twice the growth-rate of the whole economy).6/ The bureacracy brought with it a very strong, politically dominated union, which ultimately resulted in salaries that were higher than the market, and other expensive benefits gained through collective bargaining; benefits that were usually not based on performance. This environment, not surprisingly, led to high delinquency and loan default rates. The banks became brainless giants, highly dependent on the policy and directives issued by the Central Bank.

The financial crises of the late seventies and eighties forced the state banks into a more conservative lending posture. As a result, perceived marginal clients, such as small farmers and entrepreneurs, were increasingly eliminated from bank lending portfolios. State financial resources, justified largely in the name of the poor, were increasingly captured by large and politically well connected interests.

The inefficiency of the state banking system, coupled with the "crowding out" of smaller borrowers over time, has led to the emergence of a large and largely unserved informal sector. Notwithstanding its otherwise realitively high level of development, Costa Rica remains, in terms of financial intermediation, in the ranks of the less developed world.

II. Evolution of the Financial System

Until 1982 the financial system was characterized by the predominance of the state banks. By the end of 1982, 10 small private banks had been established, with a total equity of Colon equivalent to $5.5 million, total assets of $36.7 million, and total loans of $10.5 milllion. In comparison, the state owned banks had a total equity of $98.2 million, total assests of $2,141.6 million and total loans of $373.8 million. Annex III compares the growth of state banks and private banks between 1982 and 1990, in both Colon and Dollar terms. In addition to the established private banks, there existed numerous private, mostly unregulated finance companies (financieras), however, they have not been major players in the financial market.

The Central Bank has traditionally excercised great control over the financial sector. It sets interest rates for loans and deposit, and, until recently, established credit ceilings for a wide range of economic sectors.

Due to the predominance of the state banks, the Superintendency of Banks (Auditoria General de Bancos) an auditing division of the Central Bank, has not functioned efficiently in the past. State banks have not been required to issue independently audited financial statements and not were required to establish reserves to covers bad loans. They continued to accrue interest on bad loans 180 days beyond the past-due date, which grossly overstated profits. From these "profits" state banks allocated an amount equivalent to 10% of the payroll to an employee benefit fund, resulting in an erosion of their equity.

During the 1960's and the first half of the 1970's, Costa Rica experienced a significant degree of financial deepening. The ratio of the money supply, broadly defined to include currency and demand deposits, savings and time deposits in relation to the Gross Domestic Product (GDP), increased from 18.8 percent in 1960 to 38.2 percent in 1978. Financial deepening was the result of the vigorous economic growth experienced by Costa Rica during this period of relative price stability. From the mid-1950's to the mid-1970's the average annual inflation rate was less than 2.0 percent. The absence of inflation resulted from the openness of the economy, low levels of international inflation, and fiscal, credit, and monetary policies that were succesful in maintaining a fixed exchange rate.

As most countries in the developing world, Costa Rica suffered several external shocks in the late 1970s, which increased economic instability.[10/] These shocks included the two international oil crises, the coffee boom (sharp increase in production and sudden decline in the price of coffee), world recession, lack of access to the international financial markets, and war and political instability in Central America.

The 1974 oil crisis had a significant impact on Costa Rica's economy. The sharp increase in the value of oil imports caused a contraction of economic activity, loss of foreign exchange, and rapid inflation. However, soon afterwards, the coffee boom made it possible to divert the resulting inflationary pressures to the balance of payments. Government authorities made no effort to introduce policy reforms to mobilize domestic savings. The extraordinary export earnings and increasing external debt allowed the authorities to encourage domestic consumption and to increase public sector expenditures.

The Costa Rican government treated the coffee boom as a permanent situation, instead of a transitory phenomenon. When the boom ended, Costa Rica found it very difficult to adjust its rate of spending back to its normal levels. Public and private consumption were then financed by increasing the money supply. Because of the country's loss of international reserves, the balance of payments no longer moderated inflationary pressures.

Inflation turned real interest rates negative during 1975 and 1976. This financial repression had to be reversed in order to increase the national savings. Financial reforms, adopted in October 1978, linked domestic interest rates to international rates. Although designed to foster financial development, the financial reforms had the opposite effect and dramatically contracted the Costa Rican financial system.8/ In real terms, the money supply declined from 12 billion colones in 1978 to 8 billion colones in 1982.9/

As mentioned above, the reform was based on the setting of both positive real lending and deposit rates according to the international trends. However, when international interest rates went up, domestic interest rates were not adjusted pari-passu. While domestic inflation rose as much as 90 percent, deposit rates were set at 20 percent. This led to a rapid "dollarization" or currency substitution process, in the midst of foreign exchange speculation.10/

Currency substitution was also stimulated by the Central Bank paying higher interest rates on dollar-denominated deposits than rates paid to international financial institutions. This policy was used as an attempt to maintain an overvalued exchange rate, given the loss of the country's international reserves and a moratorium on its external debt announced in 1981.

Political pressure also contributed to weaken the financial reform. The Central Bank was unable to deter pressure from political interest groups to lowering nominal lending rates. The piecemeal nature of the reform has also been sited as a factor in its failure. The reform, for example, did not adjust domestic relative prices (wages and the exhange rates) to changes in interest rates. On the other hand, the "shock" strategy that was adopted was not prudent either. Gradual changes would have perhaps been a more prudent course in a society, such as Costa Rica, characterized by a long tradition of government intervention. The economic, political, and social establishment was not prepared to move quickly from a regime of state intervention to the free market oversight.11/

The early 1980's witnessed another severe financial and economic crisis, characterized by shrinking output, growing unemployment, large public-sector deficit and public external debt, rapid inflation and devaluation of the currency. The fiscal deficit was financed by the national banking system. Domestic credit grew at a rate faster than the rate required to maintain price stability and the external value of the currency. The resulting "crowding out" of the private sector contributed to exacerbate the crisis.

The crisis was also due to the fact that the Costa Rican economic model based on import substitution and state intervention was exhausted. The private flow of capital into Costa Rica stopped completely, capital flight increased and Costa Rica defaulted on its $4 billion foreign debt, one of the largest foreign debts per capita of any country in the world.

All foreign owned banks and finance companies closed their operations and left Costa Rica with the exception of City Corp and Banco National de Paris.

In order to keep Costa Rica afloat, international agencies stepped in, notably USAID with a massive assistance program. Between 1982 and 1990, USAID grant financial assistance to Costa Rica amounted to $1.3 billion or $ 140.6 million per year on average, which approximated 15% of annual exports.

The USAID policy conditionality and reform programs connected with this massive assistance program focused on, among other things, strengthening the private financial sector and creating new or strenghthening existing financial institutions.

The strengthening of the private financial institutions was made possible through the introduction of the following financial reforms:

** In 1982 Costa Rica adopted a system of mini-devaluations with rather positive results, which has been maintained to the present;

** sector or sub-sector specific credit ceilings were eliminated, leaving the distribution of credit to the market forces;

** interest ceilings were also largely eliminated, leaving deposit rates to be determined by the market, and for loan interest rates the Central Bank established generous maximum margins over the cost of funds;

** a new article introduced in the banking law permitted private banks access to the Central Bank rediscount facility, if funds were obtained by the Central Bank from bilateral or multilateral development institutions. This new law allowed USAID to channel substantial (more than $150.0 million) local currency funds to the private banking sector;

** through USAID conditionality it was possible for the private banks to reduce the term of time certificates of deposits (CDs) from 180 days to 90 days. Originally this measure had no effect, since 90 day CDs had a minimum reserve of 23% compared to 10% for 180 day CDs, making 90 day CDs rather expensive and therefore unattractive for banks. Recently, however, the Central Bank reduced the minimum reserve for 90 day CDs to 10% and now banks are actively issuing 90 day CDs;

** private banks were recently allowed to accept interbank overnight funds for liquidity purposes and an active overnight market has developed, giving private banks access to a short term liquidity fund and,

** private banks began managing private pension funds, giving the public a new alternative to the public pension funds.

An efficient financial system requires strong financial supervision. In 1988 the Costa Rican Assembly passed the Banking System Modernization law, which strengthened the power of the superintendency of banks, the AGEF, putting all finance companies, as well as banks, under its authority, establishing minimum capital requirements for finance companies, strengthening the management of the state banks and limiting political intervention. The new law gave the AGEF broader authority to intervene banks and finance companies and to levy stiff penalties for violations of any law or regulation. This was a very important change, since under the old law the superintendency of banks had to obtain authorization from the common courts prior to any intervention. Recently, the AGEF established a classification system for private banks. According to the newly established categories certain limits have been set on the banks with regard to the issuance of CDs and their access to the rediscount facilities of the Central Bank.

With the change in the banking law, giving private banks access to the Central Bank rediscount facility, funded from foreign resources, A.I.D. channeled over 150 million in local currency funds to the private banks. In addition, private banks also now have access to Interamerican Development Bank (IDB) and International Bank for Reconstruction and Development (World Bank) funds. As a result of this stimulus and supporting policy changes the number of private banks grew from 10 to 20 including three private and two cooperative banks founded with the assistance of A.I.D. Up to 50% of the banks' portfolios are financed through the Central Bank rediscount facilities.

During the 1980s the private banks outgrew the state banks in both total loan portfolio and equity, and their total assets reached $1.1 billion against $2.4 billion of the four state banks. Their increased presence and dynamic operation has forced the state banks, however marginally, to improve their operations and efficiency in order to avoid further erosion of their market share.

In 1989, the IBRD Second Structural Adjustment Loan (SAL II) gave further depth and impetus to the GOCR's financial sector reform efforts. The following were among the more important measures put in place with the Costa Rican Assembly's ratification of the SAL II adjustment program:

** commitment by the Government to avoid further generalized debt rescheduling programs;

** penalty interest rates to borrowers that do not pay their debts at maturities;

** prohibition for banks to register as income interest accrued on past-due loans;

** reduction in real terms of public banks' arrears,

** reduction of real subsidized credit;

** general publication of balance sheets and income statements off all financial institutions and,

** compulsory implementation of external auditing for all financial institutions.

As state bank lending operations to small scale agricultrual and enterprise activities contracted in the 1980s, Costa Rica, somewhat belatedly, became aware of the rich experience from Asia and elsewhere of market based lending to the non-formal sector. With capital provided by USAID to a Costa Rican NGO umbrella organization, ACORDE, lending programs to the non formal sector commenced in 1982 and have grown rapidly ever since. Initially these lending programs were highly subsidized but have been moved toward market rates as the public has begun to accept the idea of market based lending and as the donor community, particularly A.I.D. and the Inter-American Development Bank, have insisted on market interest rates as a condition for financing. While almost all international and local NGOs operating in Costa Rica have moved into the informal sector in response to the demand for financial intermediation services, by far the most dynamic and largest NGO providing financial intermediation services today is AVANCE, a local affiliate of the U.S. based ACCION. AVANCE presently has more than 5,000 outstanding loans, a low delinquency rate and an almost unlimited demand for its intermediation services even though it lends at prevailing market rates of interest.

The prospects for continued dynamic growth of these non-bank, private financial intermediaries is excellent given the fact that the state banks are ill-equipped to responsively deal with small scale borrowers and savers, and the formal, private sector banks have little interest in this market given the policy constraints which preclude their rapid expansion into new and unserved markets.

While local and international NGO based saving and lending intermediation programs are relatively new introductions to the Costa Rican financial sector, cooperative credit union (CCUs) have had a long and well established history in Costa Rica and presently account for 19% of assets in the private formal financial sector.12/ The Costa Rican Government (GOCR), drawing from the French cooperative experience, sponsored the development of credit unions and other cooperatives as a means to promote development and social justice. Given the strong emphasis on social justice almost all lending programs in the movement's early years were highly subsidized. The credit union movement, being viewed as a social program rather than as an institution promoting efficient financial intermediation, was for years essentially unregulated and with no effective prudential supervision from banking authorities. Not unexpectedly the CCU movement's history has been marked by recurrent financial crises.

Nontheless, the movement is now well established and has become an important institutional actor in Costa Rica's financial sector. From a base of 15 CCUs in 1959 the movement expanded, forming a federation in 1963, and growing to 150 CCUs by 1969. In 1990, ninety one (91) CCUs were operating with a combined membership of 117,000. It is estimated that 11% of the economically active population presently belong to a cooperative credit union.13/

The cooperative credit sector is currently participating in an A.I.D. sponsored project, through which they will receive technical assistance to aid the movement in its efforts to instill strict discipline in the management, supervision, monitoring, and financial management of CCU's. This discipline will provide the essential groundwork to develop and maintain the institutional and financial stability of the CCUs.

A draft law for the regulation of CCUs was recently presented to the Costa Rican Assembly, with the support of the government and the cooperative credit union sector. It is intended to create a suitable regulatory and inspection environment so that cooperative credit union soundness can be monitored and maintained over the long-term. The CCU movement's involvement in the institutional development of a strong government regulatory system and self-monitoring system will support the enforcement of safety and soundness standards, while protecting the uniqueness of the CCU's service to their members.

The government agency which the draft law proposes as the regulator is the Auditor General of Financial Entities (AGEF). It is probably the best suited for this purpose, given its responsibility for prudential oversight of the formal banking sector. However, in recognition that the cooperative sector cannot be treated in exactly the same manner a new division within the AGEF is envisioned. As this effort moves forward, A.I.D., under one of its current projects will be providing technical assistance to the AGEF and to the CCUs supervisory branch, which is committed to work hand in hand with the AGEF.

III. Challenges for the 1990s

Reduce the Public Sector Burden on Financial Markets.

Ironically, perhaps the most important set of measures the Government can take to spur the development of financial intermediation and financial markets in Costa Rica at this moment has to do with actions outside the financial sector. The existence of large and perennial fiscal deficits has forced the Government to frequently intervene in the financial market, effectively crowding out the private sector. Commercial bank interest rates presently stand at 36% for six month time deposits and 42% for loans.

Given the pressure placed on the financial markets as a result of the Government's need for deficit financing, the GOCR has, under the new Calderón Administration, embarked on a major program to "down size" the state and introduce a broad range of reforms designed bring some semblance of fiscal discipline to public sector finances.

Layoffs of 7,000 excess central government employees are now in progress and plans are being made for the layoff of an additional 20,000 public sector employees, representing approximately 20% of the public sector labor force, in the course of the next 24 months.

These personnel measures, if implemented, coupled with ambitious plans to reform the pension regime, modernize the budgetary process, and expand the scope of the present privatization programs, offer the hope for renewed growth and development of the Costa Rican financial sector.

Creation of Equal Conditions for Private and State-Owned Banks.

The creation of equal conditions for private and state owned banks remains the priority financial sector objective for the 1990s. To this end, the following reforms will be under constant review:

** Authorize private banks access to the Central Bank domestic rediscount window. The banking law allows only state banks and cooperative banks access to the Central Bank rediscount facilities in emergency cases but not to private banks. This places private banks at a disadvantage and leaves them unprotected since they have to rely on a small and insufficent liquidity fund, which they created.

** Permit private banks to accept demand deposits and operating checking accounts. An efficient financial sector will only be possible once the state bank monopoly on demand deposits and operating checking accounts is abolished. The reasons for the state monopoly, if ever valid, are no longer valid and represent a major constraint impeding the rapid development and modernization of the Costa Rican financial sector.

** Establish a deposit insurance fund for both state and private banks. Currently only state banks enjoy deposit insurance guaranteed by the state.

Development of a Stock Market.

Establish a capital/equity stock market. The existing stock market is primarily a market of debt instruments, predominantly government bonds. Many constraints to the development of an active capital market have been indentified and the task for the 1990s is to overcome these constraints, many of which require a change in the existing laws.

Strengthening Cooperative Credit Unions (CCUs).

CCUs are the only private financial institutions allowed to accept sight deposits and are virtually unburdened by restrictive legislation and other regulatory norms of the financial sector. The new CCU regulatory legislation recently introduced to the Costa Rican Assembly only legislates what is absolutely required to have a safe system and will not overburden the CCUs.

Given this favorable environment, the CCUs can become the private alternative to the state owned banks, playing a significant role in the provision of financial services to the small and medium-sized clientele, both in the rural and urban areas. CCUs should continue to receive technical assistance for institutional strengthening to improve the safety and soundness of the CCU system at three levels: at the credit union level, at the federation level and the state's regulatory agency level.

Strengthening of Financial Linkages.

As mentioned before, the state-owned banks have reacted to the recurrent financial crises by pushing out perceived marginal clientele as well as reducing their presence in the rural areas. It is also true that in spite of the success in establishing an efficient private financial sector, this sector is at present unable to reach out to the provinces and down to the micro and small industrial and agricultural enterprises, due, primarily, to their lack of capital and loanable funds in the absence of demand deposits and access to the Central Bank rediscount facility. To encourage financial intermediation, A.I.D. and other donors are attempting to foster linkages between private banks and finance companies, and NGOs specialized in financial intermediation for the provinces.

It is also expected that as the financial system as a whole strives to become more efficient it will naturally move towards the establishment of financial linkages, not only among the institutions of the formal financial sector but also between the formal and informal financial sectors. This will help to eliminate, to an extent, the financial dualism which currently characterizes Costa Rica's financial system. Even the state banks have become aware of the duality and are currently working to unify certain services.

Prudential Supervision and Regulatory Environment.

An area of vital importance for the future of the financial system will be the adequate development of prudential supervision and the accompanying regulatory environment. In Costa Rica the AGEF carries the burden for prudential supervision. It has been charged with supervising the banks and finance companies, and the new draft law for cooperative credit union regulation also charges the AGEF with prudential supervision of the CCUs.

The AGEF has not yet grown into its new role, assigned to it by the banking modernization law of 1988. The AGEF is ill-equiped and not prepared to assume the regulatory responsibility for the cooperative credit unions. It is clear that strengthening of the AGEF must be a top priority if the system is to work. A.I.D., through its project, will be providing technical assistance to strengthen the AGEF.

Costa Rica still has inefficient regulations for its financial sector. Slowly new and more efficient legislation is being introduced, however, there is still a long way to go. The battle being fought is against long standing ideologies within a democratic system, where draft laws are subject to established political pressure groups.

Improved supervision and a reasonable regulatory framework will result in a more efficient financial system, not only measured in terms of cost but also in terms of services and savings mobility. The provision of improved services, made possible by a modern regulatory environment, and perception of security by potential savers, constitute the best strategy for mobilizing savings. As foreign assistance resources continue to shrink in the 1990s, Costa Rica's best hope for sustained development is through the mobilization of domestic resources. To accomplish this task, the present antiquated notions, behind the nationalized state banking system, must yield to well established financial sector policies and banking practices common in both the developed world and many developing countries. This remains a real challenge for Costa Rica in the 1990s.

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FOOTNOTES

1/ In accordance with World Bank parameters.

2/ Information provided Central Bank of Costa Rica.

3/ Di Mare, Alberto. "Economía Costarricense durante los Primeros Veinte Años de la Academia C.A.". Políticas Económicas en Costa Rica, Vol II, pg. 37.

4/ González-Vega, Claudio. "Políticas de Intermediación Financiera en Costa Rica: Cuatro Décadas de Evolución". Políticas Económicas en Costa Rica, Vol I, pg. 17.

5/ IBID, pg. 27.

6/ IBID, pg. 19.

7/ González-Vega, Claudio. Economic crisis and adjustment in Costa Rica: 1978-1984. The Ohio State University, 1986.

8/ Loría-Sagot, Miguel. Evolución del ahorro financiero en Costa Rica. Serie "Comentarios sobre Asuntos Económicos". No. 62, Banco Central de Costa Rica, 1986.

9/ González-Vega, Claudio and Camacho, Arnoldo. "Foreign exchange speculation, currency subsitution, and domestic deposit mobilization: the case of Costa Rica", in The Economics of the Caribbean Basin, edited by Michael Connolly and John McDermott, Proveger, 1985.

10/ The currency substitution effect is the shift from domestic currency to a foreign currency that results when the former no longer operates as a store of value against inflation. When the chosen currency is the U.S. dollar, the phenomena is called "dollarization".

11/ Loría-Sagot, Miguel. OP.at.

12/ "Financial Services Project Paper", AID/Costa Rica, June 11, 1990, pg. 4.

13/ "Situación del Cooperativismo en Costa Rica" paper by FEDECREDITO. pg. 4.

ANNEX I

SUMMARY OPERATIONS OF THE CONSOLIDATED PUBLIC SECTOR
GDP percentage
1984 - 1991

CONCEPT	1984	1985	1986	1987	1988	1989 IMF Program	1989 Actual	May 1990 Passive Deficit	1991 IMF Project.	1991 IMF Program	1991 IMF Progr.2
1. Central government	-3,1	-2,1	-3,4	-2,0	-2,6	-1,7	-4,0	-4,5	-4,2	-1,7	-2,3
2. Rest of non-financial sector	1,2	0,3	2,1	1,7	1,8	1,9	1,7	-,04	1,1	2,2	2,3
3. Non-financial public sector	-1.9	-1,8	-1,3	-0,3	-0,8	0,2	-2,3	-4,9	-3,2	0,5	0,0
4. Central Bank	-4,7	-5,2	-3,7	2,9	3,9	-3,0	-2,7	-2,2	-1,9	-1,4	-1,4
5. Combined deficit (3 + 4)	6,6	7,1	5,0	3,2	4,6	-2,8	-5,0	-7,1	-5,1	-1,0	-1,4

ANNEX II

COSTA RICA: NATIONAL BANKING SYSTEM: OUTSTANDING CREDIT BY ECONOMIC ACTIVITY (Percentages) 1956 - 1987

YEAR	AGRICULTURE	CATTLE	INDUSTRY	OTHERS a/
1956	40.1	13.7	12.4	33.8
1957	46.6	11.7	10.4	31.2
1958	43.9	13.4	11.0	31.7
1959	43.3	15.4	11.8	29.6
1960	43.6	16.6	12.1	27.7
1961	42.3	17.1	13.8	26.8
1962	39.9	17.7	15.4	27.0
1963	39.6	15.3	15.4	29.7
1964	37.7	15.6	16.7	30.0
1965	37.1	17.4	17.5	28.0
1966	37.5	18.4	16.7	27.4
1967	35.2	19.7	18.1	27.0
1968	34.6	21.4	18.5	25.5
1969	33.5	23.2	19.5	23.7
1970	33.9	23.2	19.9	23.0
1971	29.3	24.7	17.8	28.2
1972	26.0	26.1	18.3	29.6
1973	22.9	30.2	21.7	25.2
1974	20.7	27.3	25.3	26.7
1975	22.5	23.3	25.7	28.5
1976	23.8	22.7	25.2	28.3
1977	21.8	22.6	26.0	29.6
1978	22.1	21.4	26.5	30.0
1979	20.3	21.2	24.7	33.8
1980	21.2	21.8	22.4	34.6
1981	24.7	20.2	22.3	32.8
1982	27.5	22.6	24.6	25.2
1983	31.4	23.4	26.6	18.7
1984	31.4	23.0	27.6	18.0
1985	22.9	22.4	32.4	22.3
1986	20.9	19.5	32.0	27.6
1987	19.8	16.5	31.6	32.1

a/ Include: commerce, electricity, services, housing, personal credit, foreign credit and non classified credit.

Source: Computed based on Central Bank of Costa Rica "Credito y Cuentas Monetarias", several years.

COMPARATIVE FIGURES OF STATE-OWNED AND PRIVATE BANKS

		12/31/74 ($1=C8.60)		12/31/90 ($1-102.55)	
		COLONS	DOLLARS	COLONS	DOLLARS
A)	ASSETS	4,666,072	542,567	290,954,200	2,837,194
	State-owned	4,601,427	535,050	252,801,441	2,465,153
	Privates	64,645	7,517	38,152,759	372,041
B)	EQUITY	283,363	32,949		
	State-owned	255,897	29,755	14,432,429	140,736
	Privates	27,466	3,194	6,998,048	168,240
C)	LOANS	3,218,864	374,287	75,743,392	738,600
	State-owned	3,196,583	371,696	52,762,164	514,502
	Privates	22,281	2,591	22,981,228	224,098

TRADE BALANCE OF COSTA RICA
COMMERCIAL DEFICIT
(Millions $)

YEAR	EXPORTS	IMPORTS	DEFICIT
1970	231.0	(286.8)	(55.8)
1971	224.6	(316.3)	(91.7)
1972	278.9	(337.1)	(58.2)
1973	344.3	(411.6)	(67.3)
1974	440.1	(648.8)	(208.7)
1975	134.3	(627.3)	(134.3)
1976	592.4	(695.5)	(103.1)
1977	827.8	(925.1)	(97.3)
1978	863.9	(1049.4)	(185.5)
1979	942.1	(1257.2)	(315.1)
1980	1000.9	(1375.2)	(374.3)
1981	1002.6	(1090.6)	(88.0)
1982	869.0	(804.9)	64.1
1983	852.5	(897.8)	(45.3)
1984	997.5	(996.7)	(0.8)
1985	930.4	(1005.2)	(74.8)
1986	1120.6	(1147.5)	(26.9)
1987	1158.3	(1380.2)	(221.9)
1988	1245.7	(1409.8)	(164.1)
1989	1333.4	(1752.4)	(164.1)
1990	1365.6	(2037.0)	(671.4)

COSTA RICA FOREIGN EXCHANGE RESERVES
EXCHANGE RATES INFLATION

	Reserves Millions $	Type of Change	Inflation Index (%)
1970	17.9	6.62	4.3
1971	32.2	6.62	1.9
1972	40.7	6.62	6.9
1973	51.3	6.62	15.9
1974	45.7	8.54	30.5
1975	57.6	8.54	20.5
1976	107.4	8.54	3.4
1977	214.0	8.54	5.3
1978	215.2	8.54	8.1
1979	160.4	8.54	13.1
1980	287.8	8.54	17.8
1981	213.5	36.00	65.1
1982	330.9	40.00	81.7
1983	441.6	43.15	10.7
1984	440.8	47.50	17.9
1985	529.1	53.45	10.4
1986	557.1	58.60	15.4
1987	517.8	68.40	16.4
1988	679.9	79.30	25.3
1989	747.8	84.00	9.9
1990	565.9	102.33	27.3

FOREIGN DEBT

	12/31/69	12/31/90
AID	$ 30.8	$3,116.2
AIF	4.5	
FMI	4.2	
BIRF	33.1	
BID	25.3	
BCIE	6.8	
Bankd of America	1.9	
Exinbank	14.0	
Otros	34.9	
TOTAL	$155.5	$3,116.2

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COSTA RICA: NATIONAL BANKING SYSTEM:
OUTSTANDING CREDIT BY ECONOMIC ACTIVITY 1970 - 1987
(INDEX 1978:100)

YEAR	AGRICULTURE	CATTLE	INDUSTRY	COMMERCE	TOTAL
1970	78.5	56.1	38.1	24.3	50.3
1971					
1972					
1973	61.4	83.7	48.5	47.2	60.1
1974	57.2	78.2	58.4	69.8	61.2
1975	72.9	78.0	69.6	89.6	71.1
1976	86.4	85.3	76.4	93.6	80.3
1977	86.7	92.9	86.6	94.8	88.1
1978	100.0	100.0	100.0	100.0	100.0
1979	88.6	95.6	90.2	128.5	96.6
1980	87.4	93.6	77.2	131.8	91.1
1981	51.5	43.4	38.8	66.1	46.0
1982	44.5	37.8	33.2	46.6	35.7
1983	72.5	55.9	51.2	42.4	51.0
1984	81.1	61.4	59.5	45.8	57.1
1985	59.6	60.5	70.6	70.3	57.7
1986	54.4	58.8	72.7	103.5	60.1
1987	57.8	51.9	80.3	146.2	67.2

Source: Computed based on Costa Rican Central Bank "Credito y Cuentas Monetarias", several years. Figures deflated with the wholesale price index.

ANNEX VII

COSTA RICAN PUBLIC SECTOR EXPENDITURES
1970-1988 (constant million colones, 1978=100)

YEAR	CENTRAL GOVERNMENT	PUBLIC INSTIT.	NON-FINANCIAL PUBLIC INSTIT.	FINANCIAL PUBLIC INSTIT.	LOCAL GOVERNMENTS	TOTAL
1970	2.746	2.507	1.031	941	203	6.170
1975	3.671	2.663	1.762	1.629	194	9.612
1980	6.296	4.854	3.281	3.429	315	17.032
1981	4.231	3.301	2.947	3.165	217	12.396
1982	3.296	2.368	2.473	2.101	132	9.198
1983	4.132	2.627	3.147	2.225	149	10.454
1984	4.803	3.134	3.274	2.976	202	12.422
1985	4.888	3.632	3.242	3.438	241	14.421
1986	6.761	3.775	3.887	4.016	290	15.484
1987	6.193	4.326	3.345	4.095	251	15.029
1988	6.501	4.762	3.698	4.350	281	16.215
1988/1970	2,37	3,16	3,59	4,62	1,39	2,63

(1) Does not include transfers inside public sector. Figures are deflated by the wholesale price index.

ANNEX VIII

FINANCIAL DEEPENING RATIOS
1983-1989 (percentages)

CONCEPT	1983	1984	1985	1986	1987	1988	1989 (1)
Financial Savings/GDP	35.6	30.7	32.1	32.1	38.1	40.6	42.9
Financial Savings/Liquidity	71.1	67.1	72.3	75.0	85.8	84.3	81.7
Liquidity/GDP	50.1	45.8	44.4	42.8	44.4	48.2	52.5
Internal Credit N.B.S/GDP	44.2	41.0	36.4	36.4	37.0	34.1	30.1

(1) Estimated

Source: Central Bank of Costa Rica

COSTA RICA: JOBS BY SECTOR
1959-1985

CONCEPT	1959	1963	1973	1983	1984	1985
Persons employed (thousands)	275	380	542	772	802	838
Private Sector	258	329	459	626	646	678
Public Sector	17	51	83	146	156	160
Percent Participation	100	100	100	100	100	100
Private Sector	94	87	81	81	81	81
Public Sector	6	13	19	19	19	19

Source: Victor H. Céspedes & others, Costa Rica: La economía en 1985, San José: Academia de Centroamerica, 1986

COSTA RICA: SOME INDICATORS OF STRUCTURAL CHANGE

CONCEPT	1974	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Private investment/GDP	16	15	15	15	13	12	14	12	13	15	n.d.	n.d.
Public investment/GDP	6	8	9	9	7	6	6	7	6	4	n.d.	n.d.
Total saving/GDP	7	8	6	9	8	10	13	16	19	17	n.d.	n.d.
Private saving/GDP	3	5	8	8	9	0	4	9	12	11	n.d.	n.d.
Public saving/GDP	3	2	(1)	(1)	1	10	8	6	7	6	n.d.	n.d.
External saving/GDP	11	10	15	15	12	11	7	8	4	9	n.d.	n.d.
Saving/Disposable National Income	7	9	7	11	10	12	14	17	20	18	n.d.	n.d.
Size of the State												
Central Government Consumption/GDP (real)	12	13	13	13	13	13	12	12	12	12	11	11
Central Government Consumption/GDP (nominal)	14	17	18	16	15	15	16	16	15	15	15	16
Public non financial sector												
Revenue/GDP	n.d.	28	21	18	18	24	25	24	25	26	26	n.d.
Expenses	n.d.	25	23	22	21	21	21	21	21	21	21	n.d.
Deficit	n.d.	3	-2	-4	-2	3	4	4	4	5	5	n.d.
Capital revenues/GDP	n.d.	10	11	10	6	7	6	5	6	5	5	n.d.

Source: Central Bank of Costa Rica, "Cuentas Nacionales", several years. World Bank, Public Sector Expenditure Review, 1989.

COSTA RICA: MACROECONOMIC DATA, 1970-1989

CONCEPT	1970	1975	1980	1982	1985	1987	1988	1989
Population (thousands)	1.731	1.968	2.285	2.424	2.642	2.791	2.866	2.941
GNP (1)	5.434	6.700	8.805	6.989	8.515	9.373	9.576	8.703
GDP (1)	5.574	7.473	9.648	8.743	9.785	10.818	11.190	11.827
GNP per capita (2)	3.140	3.404	3.854	2.883	3.223	3.358	3.341	2.959
GDP per capita (2)	3.220	3.797	4.223	3.607	3.703	3.876	3.904	4.021
GNP/GDP (percentage)	97.5	89.7	91.3	79.9	87.0	86.6	85.6	73.6
International interchange terms (1985 = 100)	111,4	91,0	105,8	90,7	100,0	110,9	113,5	n.d.
External resource flow (3)								
Gross	46	292	973	1.182	956	838	1.059	n.d.
Net	17	128	418	400	258	312	421	n.d.
Imports (3)	317	694	1.524	893	1.098	1.385	1.409	1.757
Exports (3)	231	493	1.002	870	976	1.158	1.270	1.444
Non-traditional exports (3)	63	173	498	336	385	517	640	787
To Central America	n.d.	197	270	167	143	109	130	144
Public sector non-financial debt (4)	n.d.	n.d.	n.d.	n.d.	3.403	839	1.099	8.862
Public sector non-financial debt as proportion of GDP (percentage)	n.d.	n.d.	n.d.	n.d.	1,7	0,3	0,3	2,1
Labor force	n.d.	n.d.	782	856	917	1.046	1.073	1.091
Employment (thousands)	n.d.	n.d.	736	776	855	988	1.014	1.049
Unemployment (thousands)	n.d.	n.d.	46	80	62	58	59	42
Mediam monthly salary (2)	n.d.	1.243	1.741	1.240	1.612	1.706	1.669	1.741
Interest rate (percentage)	6,0	9,0	20,5	21,5	20,0	23,0	23,5	23,5
Inflation rate (percenta)	4,7	20,5	18,1	90,1	15,1	16,8	20,8	16,5

(1) Constant colones (millions).
(2) Constant colones.
(3) Dollars (millions).
(4) Colones (millions).
Net external resource flow = Gross revenue per loan - Mortgage payments 7 + other capital revenues + Transfers.
Inflation rate: Detail pricing index.
n.d. = Data not available.

Source: La Academia de Centro América.

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COSTA RICA: DEFICIT AND FINANCING OF PUBLIC SECTOR, 1984-1989

CONCEPT	1984	1985	1986	1987	1988	1989
DEFICIT	colones (millions)					
1. Central government	4.966	3,940	8.247	5.714	7.405	17.109
2. Remaining public sector	(2.361)	(2.425)	(2.908)	(5.780)	(5.437)	(4.495)
3. Non-financial public enterprises	32	2.380	(895)	2.953	(739)	(3.752)
4. Non-financial public sector	2.636	3.835	4.443	2.797	1.229	8.862
5. Arrears	453	(120)	(1.175)	(1.920)	955	(134)
6. Financing	3.089	3.715	3.268	871	2.184	568
External	3.560	4.769	3.338	1.901	(707)	8.160
Internal	(471)	(1.054)	(70)	(1.030)	2.891	568
7. Central Bank's losses	7.761	10.296	12.370	9.136	13.220	21.594
8. Combined deficit (6 + 7)	10.750	14.011	12.370	9.136	13.220	21.5948
	GDP percentage					
1. Central government	3,1	2,1	3,4	2,0	2,6	4,0
2. Total non-financial sector	1,9	1,8	1,3	0,3	0,8	2,0
3. Central Bank's losses	4,7	5,2	3,7	2,9	3,9	3,0
4. Combined deficit (2 + 3)	6,6	7,1	5,0	3,2	4,6	5,0

Source: IMF:for 1984-1988; Ministry of Finance for 1989.

THE LOAN PORTFOLIO, FUNDS CAPTURED FROM THE PUBLIC AND TOTAL ASSETS OF THE PRIVATE FINANCIAL INTERMEDIARIES INCLUDING THEIR OFFSHORE TRANSACTIONS COMPARED WITH THE STATE-OWNED BANKS

(in thousand of dollars at the exchange of C104.55 per dollar as of 12/31/90)

	TOTAL LOANS	FUNDS FROM PUBLIC	TOTAL ASSETS	TOTAL EQUITY
1.TOTAL Private Banks Includ. Bco. Int'l.	546,506	663,042	1,055,37	250,694
2.TOTAL State Banks	504,660	1,794,670	2,417,996	138,043
3.TOTAL Private Banks w/o Banco Int'l.	385,927	340,620	661,674	197,944
4.TOTAL State Banks plus Banco Int'l.	665,239	2,117,092	2,811,693	190,793

The classification of Banco Internacional is difficult. It is owned by the four state-owned banks. Its official name is Banco Internacional de Costa Rica Limited, incorporated in the Bahamas with an operating Bank in Panamá, Miami, and Costa Rica. In Costa Rica the bank was established under the private banking license and is treated like a private bank. It acts, in general, like a private bank.

The government of Costa Rica has no interference in its operation. However, even if we group Banco Internacional together with the state-owned banks, their equity is smaller than the equity of the private banks and their loan portfolio is 63% against 37% of the private banks. However, if we group Banco Internacional together with the private banks (1) they are bigger in loans and equity than the state-owned banks.

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